THE ROYAL BANK OF CANADA

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OF THE 118TH
ANNUAL MEETING
OF SHAREHOLDERS

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An address by
Allan R. Taylor
Chairman & Chief Executive Officer

The time has come to take the Twenty-First Century away from the futurists. The world of the year 2000 is just thirteen years – only 155 short months – from today.

Between now and then, we can predict with certainty that The Royal Bank of Canada, and the world we move in, will see dramatic changes. Like any other business organization, even Canada's largest financial institution has to accept the world as we find it. No matter how turbulent and uncertain our external environment, we must act. We must adapt to forces outside our control.

But there is no question of who controls the internal environment of the Royal Bank itself. Management must accept that responsibility.

As your Chairman and Chief Executive Officer, my paramount concern is the strategic drive and direction of this bank. Your President, John Cleghorn, will describe for you our current actions and immediate plans.

Today, I want to talk to you about the forces of change, and how I intend to see the Royal Bank deal with the risks and the new opportunities that change, inevitably, generates.

THE CHALLENGE OF CHANGE

As the long-range thinkers of the Club of Rome have said, economic growth only has to stay on a straight line – at an annual rate of roughly 3 percent – for there to be as much change in the next 16 years as in the past 40.

There is no mystery in this compound growth. Quite simply, there will be more people and more human needs, more products and services, more problems and more solutions, more ideas and innovations – more of everything which we call "change".

Nor is there any justification here for grim prophesies, like those of some 20 centuries ago. That was when the prophet saw four riders mounted on horses named War, Pestilence, Famine and Death. To create a new and better world, the old world was first to be destroyed by the four horsemen of the Apocalypse.

Today, four new horsemen are riding toward the Twenty-First Century. They ride the horses called Speed, Size, Information and Interdependence. And they bring change that can transform our world for the better – depending on how we respond to the challenges they represent.

SPEED

The first and greatest challenge is speed – the acceleration of change. Take the use of computers in the financial services industry.

The Royal Bank was one of the first Canadian financial institutions to install a computer only 25 years ago. Now, our customers use the Royal's national network of automated banking machines to make deposits, withdrawals and pay bills, for an average of 10 million transactions per month. Now too, we can move billions of dollars to our offices in London or Tokyo in nanoseconds.

The challenge of speed is not without risk. But it can also mean more benefits for more people, more quickly than ever before.

SIZE

The second challenge is size. We now have "megaplayers" active in "megamarkets", competing on a global scale.

For example, the world has only begun to see the consequences of Japan's economic success. In 1981, only one of the world's 10 largest commercial banks was Japanese. Today, six of the top ten, and the four largest banks in the world, are Japanese.

Or, consider the magnitude of world trade, now much larger than ever before. Then, consider the fact that it is dwarfed by the value of financial services.

As only one example among many, there is the foreign exchange trading in the major money centres. In New York, London and Tokyo alone, currency trading now totals some $190 billion each working day, or $45 trillion a year – at least 25 times the volume of world trade.

The world has only just begun to deal with the implications of the financial markets' growth. We still think in terms of trade in goods. No international agreement exists for global trade in financial services.

Information

The third challenge is the mass of information available today. The challenge here is that it must be analysed and managed to have value. Then, it can be packaged, distributed and used as a service.

For instance, the Royal Bank has been in the foreign exchange business for more than a century. But the new information technologies have enabled us to develop a worldwide trading turnover of some $ 9 billion a day. Our foreign exchange trading now totals more than $2.2 trillion a year.

Another example. To help our business clients manage their financial information, our new cash management programs give direct, on-line access to the corporation's banking records at any time. For consumers, automated banking machines already offer instant, up-to-the-minute access to account balances.

And there will be more to come!

Interdependence

The fourth and last of the challenges is interdependence in the global economy and the ''internationalization'' of the marketplace. Some of the major instabilities we now face arise directly from shifts in the economic position of nations, and imbalances that have been permitted to develop in the global system.

So, we can only understand the severe problems of Canadian farmers in the context of world agricultural production and how it has changed: the ''butter mountains'' of Western Europe; the fact that India is now a net exporter of wheat and coarse grains; the news that The People's Republic of China can feed itself today.

We can only understand the prospects of Alberta's economy and the Canadian ''oil patch'', if we keep up with the news of OPEC meetings and the swings in world prices of oil.

The record U.S. trade deficits are at one end of a seesaw. At the other end are enormous trade surpluses for Japan. They have helped to cause damaging volatility in foreign exchange markets. Since 1981, the U.S. dollar climbed 30 percent against the Japanese yen, and then dropped by 37 percent – one of the largest fluctuations of a major currency in recent history.

Progress

Speed, Size, Information and Interdependence – together, they seem to make the challenge of change overwhelming. And there's no doubt that unstable, uncertain conditions, which make it difficult to function, benefit no one.

But make no mistake. Progress comes through change.

We must welcome the growth in production and competition, technology, information and international markets. Such change can produce new efficiencies and new opportunities – for new and better jobs, higher standards of living, and more rewards in life – for more people in more nations around the world.

With the will and the effort, with sound government policies and the right business strategies, we can turn change into *progress*.

So, let me share with you my vision of how we can ride with the horsemen of change.

The Problem of Imbalances

If one thing is clear, it's how much easier the ride would be, if we could count on an environment of economic stability. That is one reason why we must come to terms with the international problem of trade and fiscal imbalances. The other reason is that these imbalances cannot be sustained forever.

Since 1981, both Japan and Germany have generated huge current account surpluses – some 80 billion and 30 billion dollars, respectively, in 1986 alone. Over the same period, the United States moved from surplus to a record deficit, now estimated at close to $140 billion for 1986.

The seesaw effect of these imbalances has not only been rocking the international money markets. These same imbalances are also threatening to fuel a protectionist firestorm in the United States and other industrialized countries.

Protectionism, in turn, threatens economic recovery among the major trading nations, such as Canada. Equally, it endangers the prospects of developing countries who need export earnings to finance their development and manage their debt.

Without a doubt, major differences in the fiscal positions of industrialized countries are aggravating an already serious situation. Japan's substantial surpluses have a key role in financing the immense U.S. budget deficit. Within the last two years, in fact, the United States became a net debtor nation for the first time since 1914.

How did this situation come about?

Some would say that Japan's economic power is at the root of the international problems – that a nation can be "too competitive".

I totally disagree!

The competitive challenge which Japan represents to the West has set new standards of industrial productivity, of government and business relations, and of international competitiveness – not to mention, technological efficiency.

No, the real problem lies with *all* the major industrialized countries – with Japan, the United States and Europe – and, yes, Canada. The problem is the lack of harmonization among their national economic policies.

The Need for Harmonization

Most urgently, we need international cooperation on all of the global trade, financial and economic issues, to restore balance and stability to the global system.

Because we are interdependent, we cannot have unilateral action. We cannot have "Fortress North America" or "Bunker Europe" – or even "Castle Canada". We cannot even have domestic economic policies that are truly effective, if governments attempt to ignore the fact that we live in a *world* economy today.

International harmonization of trade, fiscal and monetary policies has been urged, and will continue to be urged, by the Economic Summits of the major industrialized countries, as well as by the Interim Committee of the International Monetary Fund.

And the necessary harmonization *is* beginning to happen.

The "Plaza Meeting" of the G5 countries in the Fall of 1985 agreed to harmonization including currency values.

That was followed very quickly by the International Monetary Fund meeting in Seoul, South Korea. There, U.S. Treasury Secretary James Baker called for cooperation and harmonization among the borrowing and lending governments, the government-funded international agencies, and the more than 500 commercial banks involved in the problem of international debt.

Then at the Tokyo Summit last Spring, the major issue was the harmonization of domestic policies.

All these developments are evidence of a world beginning to work more closely together. But this is only a beginning. Hard realism and relentless effort are required from national governments, if international harmonization and economic stability are to become facts instead of goals.

Canada's Prospects

The move toward policy harmonization is particularly important to Canada. As a small player in a big world, we're exposed to the global *problems*. We must be part of the *solutions* – both by international participation, and by the responsible management of our domestic policies.

Here at home, we have had four years of economic growth at one of the highest rates in the industrialized world. And that has helped Canada to make progress on a number of fronts, such as the creation of 1.2 million Canadian jobs in the last 4 years, or the return of foreign capital because we're now giving investment in Canada the encouragement it deserves.

In terms of monetary and fiscal policies, however, there's no room for complacency. Canada's inflation rate of 4.5 percent is still one of the highest among industrialized countries. In proportion to national output, our federal deficit is now at the same level as the U.S. deficit. *Both* countries' deficits are far too high.

As for trade policy, few things are more important to Canada's economic prospects than our government's determination to pursue an agreement on freer trade with the United States. And to get on, and stay on, the "fast track" for negotiations, has certainly taken determination – as well as a solid appreciation of economic realities!

According to the Business Council on National Issues, at least 2 million Canadian jobs, and more than three-quarters of our exports, are dependent on access to the U.S. market. Whatever the obstacles, Canada must continue working toward stable trade arrangements with the United States.

These discussions between the world's largest trading partners also have a role to play in promoting freer trade internationally. The new round of negotiations on the General Agreement on Tariffs and Trade is the first GATT round to include the services trade. Canada and the United States have the chance to speed the multilateral process by making the world's first major deal on trade in services.

Expanding Financial Services

In the area of financial services, in particular, Canada has already moved into the mainstream of world developments.

The internationalization of markets and competition has blurred the lines between commercial and investment banking, and between banks and other types of deposit-taking institutions. Now, regulatory barriers are coming down as well.

In Germany, "universal banks" offer the full range of financial services. The "Big Bang" of deregulation opened up London's financial markets last Fall. In Australia, in Japan and, more slowly, in the United States, expanded powers for financial institutions, and therefore expanded services for their customers, is the direction of regulatory change.

And now, Canada has set new directions, both federally and provincially.

First Quebec, and then Ontario, opened up ownership and competition to foreign and domestic investors in the securities industry. Then came Justice Estey's excellent and definitive report on the health and regulation of the Canadian banking system.

Less than three weeks ago, The Honourable Tom Hockin, Minister of State for Finance, announced the federal government's policy paper, called *New Directions for the Financial Sector.* These bold and pragmatic proposals are designed to reinforce the strength and competitiveness of our system. And clearly, they open a whole new era in Canada's financial services industry.

It used to be that our legislation and regulation came by "the instalment plan" – for parts of the industry and parts of the country, from different levels of government, at different times. Now, change is to be comprehensive. Our integrated financial system is considered in its totality.

Now too, both the federal and provincial governments have given full recognition to the realities of the global marketplace. Where legal obstacles to the expansion and networking of financial services existed before, that's all changed.

All sectors of Canada's financial industry are to be granted expanded powers – full commercial and consumer lending powers, investment banking powers, fiduciary powers. Now, it's up to us, as an industry, to ensure the new era brings "super-service" to Canadians!

Achieving Equity

The federal policy paper is not, of course, as explicit as detailed legislation. For this reason, careful attention and clarification are needed in several crucial areas. These seem to contradict the main thrust of the proposals, which is to give equal treatment to Canada's financial institutions and encourage fair competition among them.

The first anomaly is the requirement for the banks to keep interest-free deposits with The Bank of Canada until 1990, or even later. These interest-free balances are, in effect, interest-free loans to the government of Canada. Only banks have ever had to make them. And they represent a significant cost.

But now other financial institutions are being given full commercial and consumer lending powers *without* the requirement of putting up interest-free balances. In other words, for the next three years or more, non-bank financial institutions will have an unfair and artificial competitive advantage in the form of lower funding costs.

Therefore, to achieve competitive equity, the unfair burden of interest-free balances should be abolished *at the same time* as commercial lending powers are extended to the other financial institutions.

A second policy area which deserves careful consideration concerns the new ownership rules for non-bank financial institutions. Here, for the first time, the federal government addresses the need to control the spread of narrow ownership and the mixing financial and non-financial companies. The aim, quite rightly, is to avoid the dangers of self-dealing by bringing the other kinds of financial institutions into line with the banks. However, it is not totally clear that – even over time – the same ownership limits which apply to the major banks, will also apply to the non-banks when they are equally big.

Equal treatment of Canada's financial institutions must be clarified. The rules should be the same for all of equal size.

One more very important concern is the treatment of the one-and-a-half billion-dollar *deficit* in Canada's deposit insurance plan. The government's proposal appears to be simply to pay down the deficit out of increased premiums from member institutions. This would be neither sensible nor just.

The sensible way to deal with the deficit is as a *separate* problem – apart from the ongoing operations of the deposit insurance fund. The just way of paying down the deficit is on the basis of responsibility – by a *reasonable* distribution of costs between members of the fund and government.

If this isn't done, government will be demanding that member institutions, their customers and shareholders, be made to pay not only for *retroactive* increases in deposit insurance coverage, but also for the costs of payments to depositors *not* insured by the fund. Both of these decisions were made by *government.* And that is to say nothing of responsibility for the costs arising from inadequate supervision of the financial institutions which failed.

On the separate question of the deposit insurance fund's operations, it is also disappointing, to say the least, that no mention is made of either "separate pools" of insurance or a co-insurance scheme. Yet both have had considerable support in industry and government studies. The concept of "separate pools" and deposit co-insurance is to promote an equitable distribution of risks among member institutions and among depositors.

The Strategic Position

These and other questions can and *must* be resolved as the details of legislation and regulation are worked out. In the meantime, we can be sure that there will be great change in an expanding universe for financial services. There will also be great opportunity for progress, for those who pay careful attention to strategies and refuse to place limits on themselves.

At the Royal Bank, we have had well over a century to learn to compete and capture the opportunities of change. For the years ahead, we have set our sights on performing to our full potential, guided by four strategic objectives.

First, is the clear requirement to be one of the strongest and most profitable financial organizations in this country. We must earn better returns for our shareholders. We must have better profits to generate capital for future growth.

I say to you bluntly that the current level of profitability is not satisfactory. We are committed to improve our productivity and efficiency. We can, and will, succeed.

Equally important is our focus on customers – our second goal. Listening to customers is never more important than in times of far-reaching change. To be a consistent leader in the quality and value of our products and services, we will know and anticipate our clients' changing needs.

Third, we will seize the opportunities we see in future to expand the range of our services. Now, with the "liberalization" of regulation, we will build our strong customer allegiance across the board.

We are Canada's largest *bank.* We intend to be Canada's leading financial services *enterprise.*

I have no doubts about this achievement. It will come because we are committed to being a leading employer of excellent people. To hire the best, train the best, retain the best, is our fourth and final goal.

These are the strategies that will take us toward the year 2000 through all the challenges of change:

Accepting uncertainty as the inevitable reality. Welcoming change for the opportunities it creates. Matching the speed of change with flexible responses. Using the scope and strength of our bank to master the global scale of change. Transforming the world of information into new services for all our customers. Basing our business decisions on a thorough understanding of our complex and changing environment – its risks and its opportunities. Maintaining a Royal Bank team of the highest professional quality.

With these approaches, I have every confidence that we will ride with the new horsemen of change.

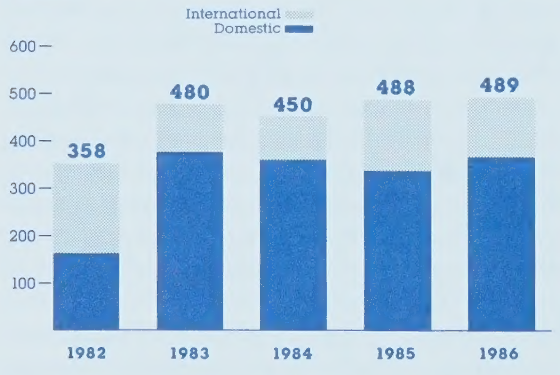
Submitted by
John E. Cleghorn
President

The business environment we operate in is very complex. Traditional and new competitors have intensified their efforts in all of our markets. Looking into the future, all signs point to more of the same.

To satisfy the needs and expectations of our shareholders, our customers and our employees in these turbulent times is our challenge. My purpose is to report on some of our initiatives to meet that challenge.

Let me begin with a review of last year's financial performance. In terms of earnings, 1986 was disappointing. However, it was also a year in which we recorded some noteworthy achievements in a number of areas.

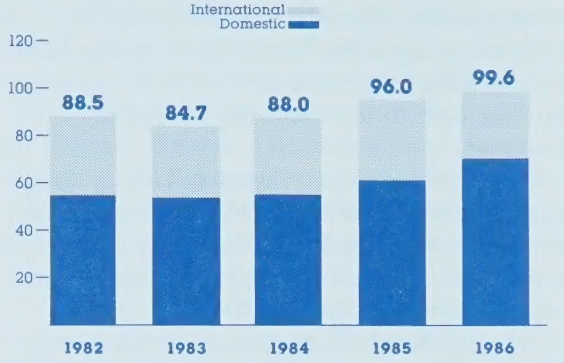
NET INCOME
$ Millions



At $489 million, our net income was unchanged from fiscal 1985. On a per share basis that translates into $4.05, compared with $4.28 in the previous year. This is not a satisfactory performance for the Royal Bank. On the other hand, considering the difficult environment in which we are operating, it took a lot of hard work and good judgement to do as well as we did.

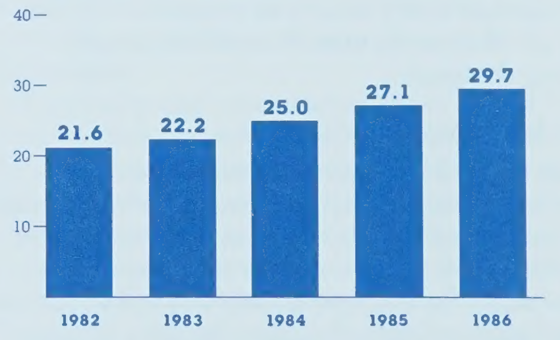
Once again, the domestic banking side accounted for the bulk of our earnings, mainly as a result of excellent performance in personal banking and treasury operations.

TOTAL ASSETS
At October 31 - $ Billions



Record growth in residential mortgages and higher consumer lending were largely responsible for the 4% increase in our assets, to just under $100 billion at fiscal year end. Business credit demand, however, continued to be weak. Domestically, there was a small increase while international loans declined more than $2 billion.

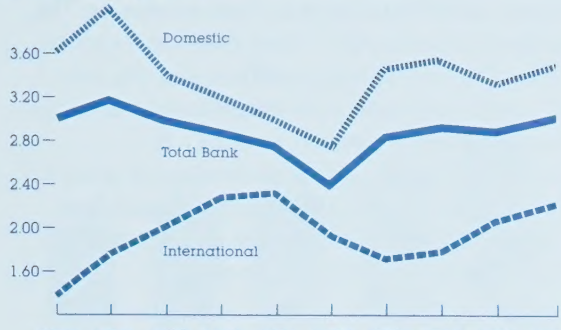
CONSUMER LOAN BUSINESS
Percentage of Average Total Loans



Consumer credit is now roughly half of our domestic and more than 20% of total assets. Because losses are traditionally lower in this area, the rise in consumer loans has strengthened our portfolio mix.

Banks have two sources of revenue – the most important being net interest income, or the difference between interest earned on loans and securities and the amount paid on deposits and debentures. Net interest income for 1986 totalled $2.9 billion, $300 million more than in the prior year. Most of that increase came from domestic operations.

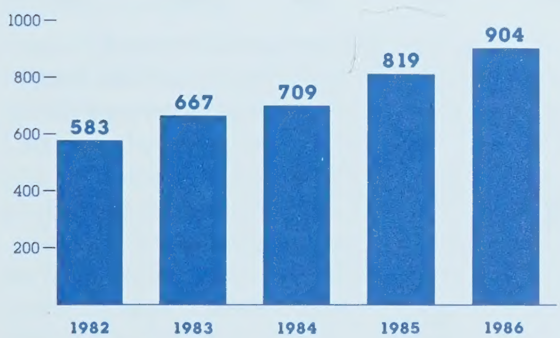
NET INTEREST INCOME
As a % of average assets



Expressed as a percentage of assets, our net interest income, or margin, was higher in 1986 in both domestic and international operations and, therefore, for the bank as a whole.

The second source of our revenue is fee income – or to use the term which appears in our financial statements – "other income". This has increased substantially in recent years.

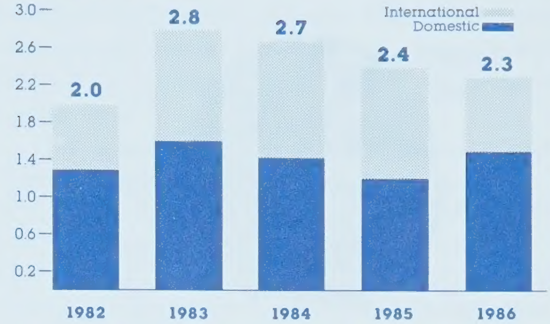
OTHER INCOME
$ Millions



Traditional fee sources such as routine deposit and chequing transactions and other consumer banking activities provide the larger share of these revenues. In addition, a rapidly growing component is our expanding range of sophisticated financial services, many of them in investment banking and treasury. This includes foreign exchange and securities trading, specialized services such as swaps and other so-called off-balance-sheet financing activities. Electronic cash management products for business clients also contribute.

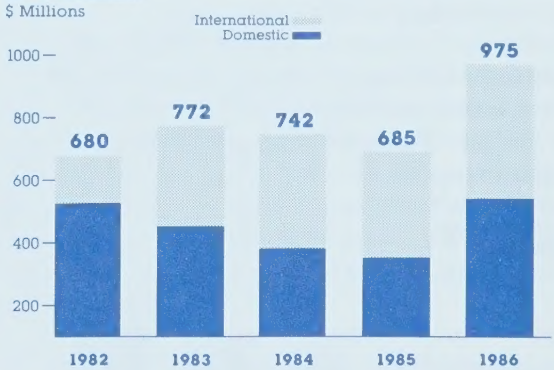
Fee income is diversifying our revenue base significantly – and it will continue to grow in importance.

TOTAL NON-ACCRUAL LOANS
At October 31 - $ Billions



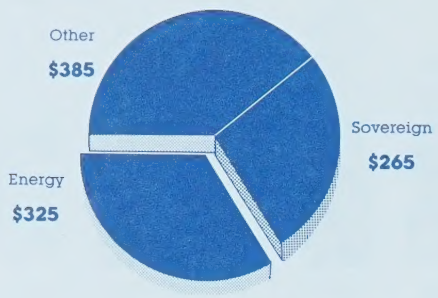
Non-accrual loans are one of our most important hurdles to improved profitability. The sharp decline in crude oil prices experienced late in 1985 and early last year seriously weakened cash flows in the oil and gas industry. As a result, the reduction in non-accrual loans we had anticipated at the beginning of the year did not materialize. Nevertheless, some progress was made.

LOAN LOSS EXPERIENCE
$ Millions



Our loan loss experience last year was $975 million. The increase over the 1985 figure was largely due to problems encountered by energy industry borrowers, principally in Western Canada.

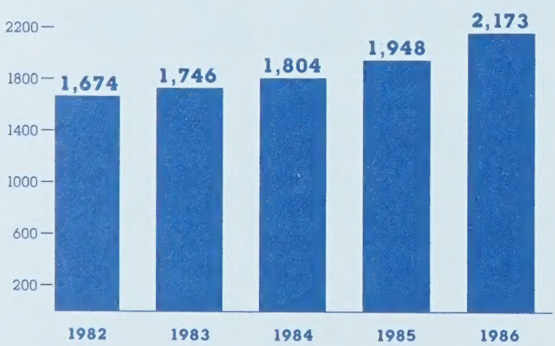
LOAN LOSS EXPERIENCE
1986 - $ Millions



That $975 million is composed of three major elements. Fully one-third represents losses on loans in the energy industry in Canada and internationally. Also included is $265 million added to our general provision for losses on loans to troubled country borrowers as identified by the Inspector General of Banks. This provision – which we will continue to build this year and in future years – now stands at $628 million or almost 11% of our loans outstanding to these countries.

Under the five-year averaging formula set out by Canadian regulators, the actual amount of these loan losses charged to income was $817 million. The remaining $158 million was charged to capital.

NON-INTEREST EXPENSES
$ Millions



During 1986, we also incurred an 11.5% increase in our non-interest expenses. A significant portion of that was due to external factors.

We paid higher business and capital taxes and deposit insurance premiums which accounted for $57 million in additional costs. The appreciation of foreign currencies against the Canadian dollar, a cost that was more than offset by higher revenue from business activities in these same currencies, was also a factor.

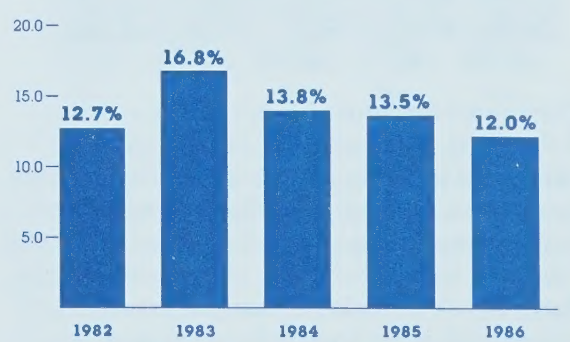
Excluding these items, the rise in non-interest expenses would have been a more moderate 7%. Three areas accounted for that increase – capital spending for technology, staff costs in the customer service area and new investment banking initiatives offshore, mainly in the U.K.

A review of our financial performance would not be complete without putting the numbers through the acid test of two key measures of profitability used in our industry.

RETURN ON ASSETS
% of Average Assets

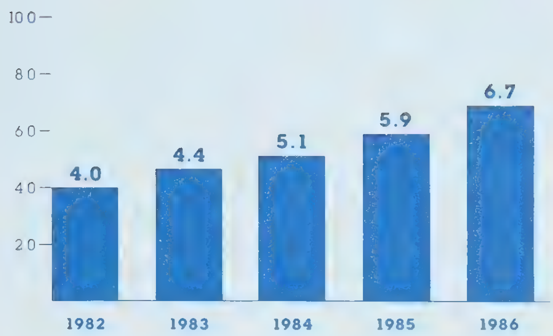
Return on assets was 50 cents for every $100, a decline from 53 cents in the prior year. Our long term target is a return of 75 cents for every $100 in total assets.

RETURN ON EQUITY
%



Return on equity declined slightly last year to 12%, a reasonable level considering operating conditions but still below our long term goal of 16%.

TOTAL CAPITAL
$ Billions



In the past five years we have increased our capital base 70%, mostly through external sources, including an additional $800 million in 1986. While there has been some dilution in earnings per share, we firmly believe the long term benefits of our stronger capital position will outweigh the short-term costs. As for the dividend on our common shares, prudence dictates that we maintain the current level until earnings improve.

Leading position

Given the overall business environment, we believe the Royal Bank is in better shape today than it was a year ago. Our leading position in Canadian banking, our technological strengths and our initiatives worldwide will sustain our progress in the years ahead.

Canada is our Number 1 priority. The base we have built over many years of banking is the cornerstone of our strength as a major financial institution. Our 6.5 million individual clients use more than 8 million savings and chequing accounts and more than 3 million credit cards.

Individual Canadians have $37 billion on deposit with the Royal – more than with any other financial institution in the country. Our personal customers also have loans totalling some $18 billion.

We also provide financial services to one in four independent businesses. And we serve more farmers than any bank in Canada.

Because it has been an attractive business in recent years, retail banking has drawn intense competition. To maintain leadership we are strengthening our commitment to excellent customer service. That means getting closer to our customers to better meet their personal needs through products and services that incorporate high value, high quality and greater convenience.

We are reducing paperwork at the customer level by using more personal computers in our branches and moving routine administrative work out into processing centres. Our customers want branch staff spending their time directly serving them – and that's what we want.

That goes hand-in-hand with providing our deposit customers with flexible options and competitive interest rates, 24-hour-a-day banking machines and extended branch hours in a growing number of locations. Our service delivery network is the pillar of our retail strategy; that is, the 1,440 Royal Bank branches from coast to coast, the electronic banking facilities and our 38,000 employees in Canada.

We have also been working hard to expand our range of savings and investment products and to train our staff to sell them effectively. We have even recruited groups of Royal Bank pensioners, our "Grey Panthers," to sell retirement income funds across the country. And they are doing a terrific job.

Product innovation

On the personal lending side, product innovation has been a key ingredient in our success. A year ago the Royal was first to offer pre-arranged mortgages. The service was a hit, especially with first-time home buyers. It brought many Canadians through our doors so we could sell them the most comprehensive mortgage package in the country.

In the highly-competitive car loan market we introduced our "Shock Absorber," which protects car buyers from first-year depreciation loss in the case of accident or fire. The combination of Shock Absorber, our innovative Buy-Back Car Loan, and other options, gave our staff an important edge in the market – and our customers a good deal.

Last year we also increased loans and deposits in the rapidly growing independent business sector. Our comprehensive range of services and long-standing commitment to that market contributed to our success.

In agriculture, we differentiate ourselves from competitors by providing strong financial management support to farmers through professional agrologists and a growing range of computer-based tools.

Another source of competitive strength is our significant involvement in the communities we serve. This takes many forms – donations to educational, health and community service organizations; financial support for the Junior Olympics and the arts; or the countless hours of staff time devoted each year to a variety of activities such as Junior Achievement or the local "Y".

Good will and business building also result from involvements in major events. We were the official bank to Expo 86. Of the 22 million visitors to Vancouver last year, 10 million bought their passes from Royal Bank branches across Canada. On the Expo site our banking facilities served more than one million visitors. The Royal is also official bank and Canadian distributor of ticket applications for the 1988 Calgary Winter Olympics.

Role of technology

Technology is playing a major role in the changing financial services industry. When it comes to applying new technology in Canadian banking, the Royal is working to remain at the leading edge.

The most striking advance has been growth in consumer use of automated banking machines. We have installed more than 1,200 of them across Canada, offering convenient 24-hour a day service in the vast majority of cases. We have nearly twice as many machines as our nearest competitor.

And with our electronic links through Interac in Canada and the Plus System network in the United States, Royal customers have access to their cash from more than 13,000 banking machines in North America. All they need is a Royal Bank client card. That convenience will extend to the U.K. and Japan later this year.

Last year our banking machines processed nearly 120 million routine transactions – cash withdrawals, deposits, transfers between accounts and bill payments – more than we handled across the counter in our entire Canadian branch system.

Technology is also a vital marketing tool in our Visa credit card program, the largest in Canada, and in our efforts to expand the Diners Club presence in this country. Efficiency in processing millions of transactions is one side of the coin. The other is our leadership in providing automated terminals for retail outlets. During 1986 we introduced a machine no bigger than a business telephone which automatically authorizes Visa purchases and provides same-day credit to the merchant's account.

In business banking, we are successfully developing new sources of fee income by providing treasurers with sophisticated electronic banking services. Whether for cash management, payroll, trade finance, treasury or foreign exchange, our business customers have the financial world at their fingertips 24 hours a day.

The Royal is by far the Canadian leader in payroll services, with more than 10,000 customers. And more Canadian firms use our cash management system, known as CashCommand, than any other domestic service.

Investment banking

In recent years, one of the significant trends in international finance has been the shift away from traditional bank credit by large corporate borrowers. Fortunately, the Royal Bank picked up on this trend early in the game and became involved in investment banking almost two decades ago with the founding of Orion Bank.

Today Orion Royal Bank, based in London, is the largest Canadian-owned investment bank in Europe and a recognized force in international capital markets. Once the recent regulatory proposals are enacted at the federal and provincial levels, this will allow us and our Canadian business clients to benefit more fully from the expertise we have gained offshore.

In addition to investment banking, our treasury operations are well established, placing us among the leading North American banks in areas such as foreign exchange. We also provide money market services along with expertise in swaps, mergers and acquisitions, venture capital and corporate finance.

Investment banking and treasury – along with the electronic banking services mentioned earlier – are the growth markets in business banking. There is no doubt, however, that the ability to provide credit is still an important competitive strength. Our strategy is to marry the newer securities and treasury management products with the ability to offer a full range of traditional bank credit services in Canada and selectively abroad.

The Royal Bank will also continue to seek profitable international opportunities in specific geographic markets. In Latin America and the Caribbean, we have had a strong local banking presence in several countries for more than three generations. We have increased our efforts in those countries where future prospects appear favorable and sold or closed operations in others.

In Australia our joint venture, National Mutual Royal Bank, which is currently the fifth largest bank in that country, is engaged in retail in addition to commercial and investment banking.

And we have a very successful and growing private banking network, which rests upon a client base we have built up over many years of doing business internationally.

Strategic goals

The Royal Bank has four strategic goals: improved profitability; increased focus on customers; an expanded range of services; and to be a leading employer.

Let me be more specific about some of the thrusts we are making in pursuit of these goals. I have already outlined a variety of actions in support of our profitability and customer service objectives.

Another thrust is to strengthen risk management across the bank. New financial products are changing the nature of risk while volatile economic conditions and the global restructuring of many industries are adding to it.

We are aggressively applying technology wherever there is a cost and customer service benefit. A related strategy is the effective use of information, both as a management and marketing tool for ourselves and as a product that can be sold.

We are working hard to increase operating efficiency and eliminate management practices which add little value. This is imperative as we cannot achieve the desired improvement in our financial performance solely through increased business volumes.

We are streamlining our management structure, a process that will involve the elimination of unnecessary layers in our head office and in field headquarters. At the same time, this will push down decision-making closer to the action – that is, closer to the customer.

Our network of branches is also being reorganized around segmented markets, allowing us to handle more business and give better service without adding significantly to overhead.

Some of our initiatives will add to profitability in the near term. However, others may take longer because competition is fierce. Loan losses are also likely to affect earnings for some years.

Nevertheless, Royal Bankers demonstrated again in 1986 that their skills, devotion and individual and team efforts can produce results under difficult conditions. Our staff are committed to our success.

Our outlook for the future is positive. We have a solid foundation built on a reputation for quality, innovation and better service, for all our customers.

We have a strong history spanning 117 years. It has been a consistent record of energetically and successfully rising to meet new challenges in new ways, while retaining and building on traditional strengths. That is exactly how the Royal Bank is going to face the new world ahead.

The 118th Annual Meeting of the Common Share Holders of The Royal Bank of Canada was held in Le Grand Salon of the Queen Elizabeth Hotel in Montreal on Wednesday, January 7, 1987 at 11:00 a.m. As designated by the Directors the Chairman of the Board, Mr. Allan R. Taylor, acted as Chairman of the meeting and the Secretary of the Bank, Mr. R.J. Moores, acted as Secretary. The Chairman declared that as notice of the meeting had been duly given and a quorum was present, the meeting was properly convened. By way of information, the Chairman stated that the change of location for the meeting (previous meetings were held in the Bank's Auditorium) had been made necessary to accommodate the growing number of attendees. The Chairman advised that the languages of the meeting were English and French. He then explained the voting procedure to be followed and appointed Messrs. F. Gareau and W.J. Johnston, officers of Montreal Trust Co., to act as Scrutineers.

The Chairman stated that a copy of the minutes of the last Annual Meeting of Shareholders of the Bank held on January 9, 1986, had been sent to each Shareholder as required by the Bank Act and unless there was any discussion they would be taken as read and adopted. Accordingly, the minutes of the last meeting of shareholders were adopted.

The Chairman referred to the Annual Statement as at October 31, 1986, copies of which had been distributed to Shareholders, and to the Directors' Report, and called upon the Secretary to read the Directors' and Auditors' Reports.

Directors' Report

To the Shareholders, the Royal Bank of Canada

The Directors of The Royal Bank of Canada have pleasure in submitting to the shareholders the one hundred and seventeenth annual Directors' Report as well as the Annual Statement for the financial year ended October 31, 1986, which includes the Consolidated Statement of Assets and Liabilities of the Bank and the Consolidated Statements of Income, Appropriations for Contingencies and changes in Shareholders' Equity for the year then ended and the Auditors' Reports with respect to those statements.

In accordance with the usual practice, the assets of the Bank have been carefully valued and provision made for all bad and doubtful debts.

During the year, 17 branches were opened and 18 were closed in Canada; and 1 was opened and 2 were closed outside Canada. The total number of branches in operation on October 31, 1986, was 1,495 of which 1,439 were in Canada and 56 were in other countries; in addition the bank owns more than 10% of the voting shares in 103 subsidiaries and affiliates throughout the world.

The Directors once again wish to place on record an expression of sincere appreciation to all members of the staff, both in Canada and abroad, for the loyal and dedicated manner in which they have performed their duties during the past year.

Respectfully submitted

Allan R. Taylor
Chairman and Chief Executive Officer

Montreal, January 7, 1987

The Auditors' Report was then read by the Secretary (this report appears on Page 58 in the Annual Report).

The Chairman then said:
"I would like to place on record the appointment of four non-officer and and two officer/directors since our last meeting of shareholders. I would ask each of those present to stand and be recognized as I call their names: The Hon. E. Peter Lougheed, Calgary appointed on February 4, 1986; Mr. Robert M. Chipman, Winnipeg appointed on May 5, 1986; Mr. L. Yves Fortier, Montreal appointed on June 10, 1986 and Mr. G. Wallace F. McCain, Florenceville, N.B. appointed on September 3, 1986; and officer/directors: Mr. A.H. Michell and Mr. R.G.P. Styles both appointed on June 1, 1986. Gentlemen, welcome to the Royal Bank family.

I must also advise you that three directors will not be standing for re-election today for a variety of reasons: Mr. Paul Paré, who joined the Board on November 10, 1970, and resigned, for business reasons, on November 18, 1986, and Mr. Donald K. McIvor, who joined on December 7, 1982, and who has found it impossible to attend Board Meetings due to new responsibilities outside Canada. After some 16 years in the case of Mr. Paré and 4 years in the case of Mr. McIvor, both of these directors will be sorely missed. Mr. Hal E. Wyatt who retired as Vice-Chairman of the Bank on April 30th last after a long and distinguished career resigned from the Board at that time in accordance with the Bank's policy concerning continuance on the Board of former officer/directors. For the devotion of these directors to the interests of the Bank during the years in which they served, I would like to express our sincere thanks. We shall miss them.

I now want to recognize a special group here with us today. As many of you know, it has been our usual custom to invite a number of employees and their spouses, from other than Head Office, to join us for the Annual General Meeting. They come from branches, regional departmental offices and subsidiaries in Royal Bank locations across Canada and around the world, from St. John's to Vancouver and from Melbourne to Geneva. They represent thousands of their fellow employees and I would ask them to stand and be recognized as a group.

It is people like these that make me confident about the future and that is something we at the Royal Bank are thinking about a lot these days."

The Chairman then delivered an address entitled "Riding With Change". (The text of Mr. Taylor's address will be found starting on page 1 of these proceedings.)

The Chairman then called upon Mr. John E. Cleghorn, President, to address the meeting. (The text of Mr. Cleghorn's address will be found starting on page 6 of these proceedings and additional information will be found in the Annual Report.)

The Chairman then declared the meeting open for the nomination of directors.

Mr. J.H. Smith nominated the following persons to be Directors of the Bank:

Robin W. Adam, John Anderson, John A. Armstrong, Ian A. Barclay, G.H. Blumenauer, Robert W. Campbell, Robert M. Chipman, Frank B. Common, Jr., Q.C., Camille A. Dagenais, C.C., LL.D., Mitzi S. Dobrin, G. Campbell Eaton, O.C., M.C., C.D., LL.D., John R. Evans, C.C., M.D., Jock K. Finlayson, L. Yves Fortier, O.C., Q.C., Rowland C. Frazee, W.D.H. Gardiner, Arden R. Haynes, Charles H. Knight, Walter F. Light, The Hon. E. Peter Lougheed, P.C., Q.C., P.L.P. Macdonnell, C.M., Q.C., Clifford S. Malone, Alexander B. Marshall, J. Pierre Maurer, G. Wallace F. McCain, Dawn R. McKeag, W. Earle McLaughlin, A.H. Michell, J. William E. Mingo, Q.C., Pierre A. Nadeau, J. Edward Newall, Ralph A. Pfeiffer, Jr., Neil F. Phillips, Q.C., Herbert C. Pinder, Claude Pratte, Q.C., Charles I. Rathgeb, Kenneth C. Rowe, R.G.P. Styles, Allan R. Taylor, Peter N. Thomson, John A. Tory, Q.C. and W.P. Wilder.

Mr. D.M. Culver seconded the nominations.

The Chairman said: "Each of the persons nominated is prepared to serve as a director and has filed a statement that he qualifies under the provisions of the Bank Act. As a group, these nominees meet the requirements for the composition of a board of directors of a bank under the Bank Act."

The Chairman then asked if there were any further nominations.

It was moved by Mr. D.W. McNaughton and seconded by Mr. M.S. Hannon:

THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried and the slate of names, as proposed, duly elected Directors of the Bank.

It was moved by Mr. Ian A. Barclay and seconded by Mr. G. Campbell Eaton:

THAT Touche Ross & Co., and Deloitte Haskins & Sells, be and they are hereby appointed auditors of the Bank until the next ensuing Annual Meeting of the Common Share Holders.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. G.H. Blumenauer and seconded by Mr. C.S. Malone:

THAT the remuneration of the Auditors covering their appointment until the next ensuing Annual Meeting of Common Share Holders be fixed at a sum not to exceed $590,000 to be divided among them.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

Mr. J. Edward Newall, Director, expressed the thanks of the shareholders to the executive officers and staff of the Bank for the efficient manner in which they have performed their respective duties.

Mr. J.D.J. Spencer, Senior Account Manager, Commercial Banking – Montreal Branch replied on behalf of the staff and Mr. T.W. Bleackley, Senior Vice-President and General Manager, Vancouver on behalf of the officers.

The Chairman then made the following remarks:

"Shareholders who have been attending these meetings for some years will be aware that The Royal Bank of Canada has a track record of being forthright in dealing with moral and social issues which impinge upon our business dealings. We place a high priority upon the ethical implications of business decisions, and we do our best to operate under high standards of ethics and integrity.

Your management has always attempted to approach such issues with sensitivity, thoughtfulness and balance, placing a very high value upon the Bank's earned reputation for corporate good citizenship. Indeed, the Bank has not in the past hesitated to take a clear position on some social issues, declaring, for example, our clear abhorrence of apartheid in South Africa, and of oppression and the denial of human rights everywhere.

Today, however, the Bank finds itself faced with a social and moral issue of *especial* delicacy and difficulty. We have with us today some shareholders who, I understand, wish to bring it forward for the consideration of this meeting. I have met with them, and discussed the matter at length. The issue in question is that of abortion.

Here is how the Bank came to be involved:

Last Spring, a medical practitioner approached one of our Toronto branches for mortgage financing for the purchase of a building in which he proposed to establish a clinic. The mortgage proposition was acceptable by ordinary commercial criteria. Approval was given by a relatively junior lending officer in our field headquarters, without the matter being referred to the executive level – and frankly, without the matter being thought through with the thoroughness one might, with hindsight, wish for. The mortage loan was granted.

Some months later, senior management became aware of the mortgage, because we started to receive letters on the subject, and learned that various publications of the Pro-Life anti-abortion movement across the country were castigating the Bank for having, as they put it, provided financial support for the establishment and operation of an abortion clinic.

It seems that, as mortgages are registered and thus become a matter of public record, this one had been discovered and publicized by the anti-abortion groups. Moreover, it was and is the interpretation of these groups that the existence of the mortgage demonstrates that the Bank has taken a policy position in support of abortion on demand.

Having thus become aware that the Bank had – albeit without senior management deliberation – become involved in the abortion issue, I and other members of management then undertook to give careful thought to what policy position, if any, The Royal Bank of Canada ought to take on the issue, quite apart from any assumptions which might have been raised by the pre-existence of the mortgage in question. The matter was also discussed with our Board of Directors.

We came to the conclusion that The Royal Bank of Canada should *not* take a policy position, the issue *not* being one upon which we feel we have a mandate to take a stand.

Quite clearly, there is as yet no consensus of Canadian public opinion on abortions. Personal convictions are strong and feelings high on both sides of the debate. Moreover, proponents on each side base their position on what they, in good conscience, perceive to be strong moral arguments. Indeed, I am sure the Royal's shareholders, its customers and its staff, right up to and including senior management, are, as individuals, representative of the Canadian population on this issue – i.e., split in their views.

While the debate continues, we do not believe it is proper for a commercial institution such as ours to take a position – *as an institution* – in favour of one side or the other, it being our view that this is one of a number of social issues which are essentially beyond the institutional competence of business corporations.

I would include in this category such issues as the death penalty, and many of the new and delicate ethical questions posed by the developments of genetic and medical science.

These are questions for the consciences of individuals, and, if they require the enactment of laws, for the legislatures representing the electorate. They are also, in the minds of many, entirely appropriate subjects for policy statements from particular interest groups, or from the Church. But they are *not,* I would submit, appropriate subjects for policy positions adopted by a banking institution.

That being said, the mortgage loan in question exists, and it raises a number of difficult legal questions.

In summary, it is the view of these shareholders I referred to earlier, that the mortgage loan is in support of an *illegal* purpose; that it is an *illegal* contract; and that it can and should be "called".

In contrast, our legal advice is that the contract *is* legal, and that any effort to call the mortgage loan would fail.

In addition, the shareholders I have referred to have requested an assurance that the Bank will not extend banking services to persons engaged in illegal activities, in support of those activities. I have no difficulty whatsoever in giving *that* kind of assurance to the shareholders. It is quite clearly and unequivocally the policy of The Royal Bank of Canada that it *not* knowingly provide banking assistance to illegal activities including activities which contravene provisions of the Criminal Code.

Now, ladies and gentlemen, I do not think we want to spend the time of this meeting hearing conflicting legal arguments presented and debated at length.

In the meantime, I hope shareholders will agree with me that the Annual General Meeting of The Royal Bank of Canada is not the appropriate forum to debate either the social and moral issue of abortion, or the conflicting legal views. The shareholders who raised this matter agree that this is not the proper forum for such a debate."

The Chairman then continued:

"Is there any other business to come before this meeting? Would anyone wishing to raise a matter of business, to comment, or to ask a question, please wait till a microphone can be brought to them, give their name, and indicate whether they are a Shareholder or not."

Shareholders posed questions regarding the taxation aspects of dividends and the future plans of the Bank with regard to entering insurance, brokerage and trust businesses. These questions were responded to by the Chairman.

There being no further business to transact, the Chairman declared the meeting terminated.

R.J. Moores
Vice-President and Secretary

Allan R. Taylor
Chairman and Chief Executive Officer